

VZCZCXRO0278
PP RUEHBC RUEHDBU RUEHDE RUEHDIR RUEHKUK
DE RUEHKB #0766/01 1710659
ZNY CCCCC ZZH
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FM AMEMBASSY BAKU
TO RUEHC/SECSTATE WASHDC PRIORITY 3275
INFO RUCNCIS/CIS COLLECTIVE PRIORITY
RUCNIRA/IRAN COLLECTIVE PRIORITY
RUEHYE/AMEMBASSY YEREVAN PRIORITY 1304
RHEHNSC/NSC WASHDC PRIORITY
RUEHDIR/IRAN RPO DUBAI PRIORITY
RHMFISS/CDR USEUCOM VAIHINGEN GE PRIORITY
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C O N F I D E N T I A L SECTION 01 OF 07 BAKU 000766

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E.O. 12958: DECL: 06/05/2017
TAGS: [ENRG](#) [EPET](#) [ETRD](#) [PGOV](#) [PINR](#) [PREL](#) [IR](#) [GG](#) [AM](#) [AJ](#)
SUBJECT: PRELIMINARY INFORMATION ON THE IRAN-ARMENIA
RELATIONSHIP

BAKU 00000766 001.2 OF 007

Classified By: Pol/Econ Chief Joan Polaschik for reasons 1.4 (b) and (d).

11. (U) This cable has been cleared by Embassy Yerevan.

12. (C/NF) Summary: According to the Armenian Ministry of Foreign Affairs, the Armenian diaspora community in Iran numbers approximately 300,000 and is centered in and around the cities of Tehran and Esfahan. An officially recognized religious minority under the Iranian constitution, the Armenian community in Iran is reportedly treated well by the Iranian government, with its primary concerns associated with Iran's deteriorating economic situation. As the Republic of Armenia's only reliable outlet to the outside world during the period following independence, Iran continues to play an important role in Armenian affairs. Armenia's relationship with Iran is driven primarily by energy and trading interests, and the well-being of its large diaspora population in Iran. Iran's policy towards Armenia appears to be motivated by its own energy needs, an interest in developing a north-south energy and transportation corridor, and a desire to influence other Caucasus countries. There are no impediments to travel for citizens of either country, and over 3,000 Iranian students (primarily Iranian Armenians) reportedly study in Armenia. End summary.

Fundamentals of Iranian-Armenian Relationship

13. (C) During a May 21-25 regional visit to Embassy Yerevan, Baku-based Iran Watcher met with a wide range of Armenian government officials, academics, and members of the NGO community to discuss Iranian-Armenian relations and Iranian interests in the Caucasus. During meetings at the Ministry of Foreign Affairs (MFA), Armen Melkonian (Middle East Department Director) and Vahagn Afyan (Iran Desk Officer) said that the Armenian diaspora community in Iran numbered approximately 250,000 to 300,000, and is centered in and around the cities of Tehran and Esfahan. An officially recognized religious minority under the Iranian constitution, the Armenian community in Iran is reportedly treated well by the Iranian government, according to Melkonian. Stating that he was not aware of any mistreatment of the Armenian community or significant outflow of Armenians living in Iran, Melkonian also said that if Iranian Armenians chose to leave Iran, it was most likely for economic reasons. Sergey Sargsyan, a researcher at the Spectrum Center for Strategic Analysis (a respected local NGO/think tank), echoed these

points, attributing the insecurities of Armenians in Iran to the economic and legal difficulties they faced there. According to Sargsyan, most Iranian Armenians who chose to leave Iran did so because of the deteriorating economic situation (exacerbated by the Ahmadinejad government, Sargsyan suggested) or due to legal problems. Concerning legal issues, Sargsyan said that in Iranian courts, in "just about every court case" involving an Armenian and a Persian, "the Persian was sure to win."

¶4. (C) Overall, Armenia's foreign policy with Iran appears to be driven primarily by energy and trade, and the desire to ensure the welfare of its large diaspora population in Iran. According to Melkonian, because Iran provided Armenia with its only reliable outlet to the outside world during the period following independence (due to instability in Georgia and the closure of the Turkish and Azerbaijani borders due to the Nagorno-Karabakh war), Armenia had to develop a good working relationship with its larger neighbor. Despite improved stability in Georgia, Melkonian said that Georgia's strained relations with Russia continue to be a concern for Armenia. Therefore, Melkonian said that a "pragmatic approach" with Iran remained essential in light of these concerns and the continued closure of the Turkish and Azerbaijani borders. Characterizing Armenia's relationship with Iran as a "long-term strategic relationship," Vahram Nercissyants, economic advisor to President Kocharian, said that while Armenia would prefer to deal with a more liberal government in Tehran, Armenia would continue to deal with whichever government was in power. Nercissyants later said that Iran could not be trusted as a strategic power and that Armenia would continue to rely on Russia to protect it as long as a perceived Turkish threat persisted.

¶5. (C) Characterizing Iranian-Armenian relations as "even," Sargsyan said that Iran's foreign policy with Armenia also

BAKU 00000766 002.2 OF 007

revolves primarily around energy and trade issues. Sargsyan believes that beyond securing the electrical power Iran needs in its northwestern provinces during the summer months, Iran continues to see Armenia as a good export market for its consumer goods. Sargsyan believes that Iran's primary motivation for maintaining good relations with Armenia rests on its desire to build a north-south energy corridor (linking Iran, Armenia and Georgia) with which to export natural gas to Europe. According to Sargsyan, Iran sees the development of this corridor as a "top priority" and that its efforts in the region as a whole must be viewed through this prism. Complementing this energy corridor, Sargsyan said that Iran is also interested in building a north-south transport corridor with which to improve its ability to import and export goods. Sargsyan suggested that other common interests played a role. Saying that both Iran and Armenia feared the emergence of a "Turkish Belt" (Turkey linked to Azerbaijan via Georgia, Turkey thereby capable of projecting its influence into the Caucasus and Central Asia more easily), Sargsyan believes Iran is using the unresolved Nagorno-Karabakh conflict to maintain pressure on Azerbaijan and hinder the spread of Turkic influence.

Energy Cooperation

¶6. (C) Energy plays a crucial role in the Iranian-Armenian relationship. Areg Galstyan, Deputy Minister of Energy, characterized Iranian-Armenian relations in the energy sector as "excellent." According to Galstyan, the volume of energy exchanges (or swaps) between the two countries has increased in volume with the completion of a second power transmission line. Under this long-standing power swap agreement, Iran supplies Armenia with electricity during the winter months (when Armenian energy needs are at their highest and Armenian hydro production is low), and Armenia resupplies the same amount of electricity back to Iran in the summer months when Iranian demand peaks and Armenian demand is lower.

17. (C) Concerning the nearly-complete 42KM natural gas pipeline under construction linking Iran and Armenia, Galstyan said that he did not anticipate it being operational until September at the earliest. When this new pipeline comes into operation, it will expand the existing energy barter agreement, as Armenia pays for the Iranian gas by sending a greater volume of summertime electricity back south. He also spoke about the so-called "second phase" of the pipeline project, now underway, which will make it possible to transport gas from the Iran-Armenian pipeline north as far as Yerevan and the nearby Hrazdan gas-thermal power plant. Galstyan said that 200KM of the existing 230KM pipeline will have to be upgraded in order to connect the two pipelines because the existing pipeline is only 300-500MM in diameter in most sections (approximately 200KM), while the new pipeline from Iran has a diameter of 711MM. Moreover, the existing pipeline connection is old, in poor repair, and was originally built to ship gas north-to-south, which will now have to be reversed. Until the second phase pipeline reconstruction (connection to Yerevan/Hrazdan) is complete, the Iranian gas is difficult to use; Armenia can pipe only small quantities through the unreconstructed connector pipeline, and use a bit more to supply local demand in the lightly-populated southern province of Syunik.

18. (C) Galstyan also discussed other energy initiatives being considered, to include the possibility of a new power transmission line linking Iran, Armenia, and Georgia, two hydro power plants on the Arax (or Araz, as it is called in Azerbaijan) River, and the possible construction of an oil refinery in southern Armenia, at Meghri. Concerning the possibility of a new power line, Galstyan said that all three countries had signed a memorandum of understanding on this account in 2006, with Georgia interested in exporting the surplus hydro power it generated during the summer months. To fund this project, Galstyan said that a German loan for the new 400KW line was being discussed. With regard to the two hydro power plants to be built on the Arax River, Galstyan confirmed that such a project was under consideration. He also said that the hydro power plants would be jointly financed and constructed with Iran. Concerning the possible construction of an oil refinery in southern Armenia (as has been floated in the local media), Galstyan said that Russian companies were interested in such an initiative, and that any such project would be much more

BAKU 00000766 003.2 OF 007

of a Russian-Iranian project than an Armenian one. He professed to know very little about the proposal, about which he was fairly dismissive. He observed that, if built, the new refinery would likely produce double Armenia's annual demand. Galstyan noted that while Armenia had not been approached by Iran concerning the possibility of building a new natural gas pipeline linking Iran with the Georgian Black Sea coast, he said that Armenia would be open to the transit income.

19. (C) Pol/Econ Chief and Iran Watcher reminded Galstyan of the very serious Iran Sanctions Act (ISA) concerns that such a project would provoke for the U.S. We noted that the new pipeline projects now coming on stream were a gray area to interpret under U.S. sanctions law, in that they represented nothing more than an energy swap between Armenia and Iran, and that (understanding Armenia's very difficult geopolitical circumstances in securing energy) the U.S. had to this point not moved to invoke sanctions against the Iran-Armenia pipeline. However, a project that enabled Iran to ship natural gas to a third country and from there to world markets would be a vastly different thing, and a huge problem for us.

110. (C) Yerevan Comment: Galstyan is among Embassy Yerevan's most valuable interlocutors. He brings an engineer's mindset to the technical problem of ensuring that Armenia has the most robust and flexible energy

infrastructure possible. He also has an admirable and sincere vision for regional energy cooperation, which he believes would be a good thing in its own right for all parties, as well as a confidence-building measure to help bring peace with Armenia's neighbors, Turkey and Azerbaijan. In the Turkey/Azerbaijani context, his regional vision is precious and rare for its startling lack of animus against Armenia's traditional enemies. This attitude is more problematic when applied to Iran. However, he and his superiors (to the top of the Armenian government) all know of our objections to Iranian engagement, and have promised at least to be fully transparent with us regarding their plans.

¶11. (C) According to Igor Zakharov and Armen Arzumanyan of PA Consulting, a USAID contractor charged with assisting the Armenian government with energy reform initiatives, the proposed oil refinery at Meghri would greatly exceed Armenian internal demand. By their estimations, the new refinery would produce approximately 1 million tons of diesel oil annually while Armenian internal demand was only 500,000 tons per year. They pointed out that since there is no railroad currently linking Iran with Armenia, a pipeline would have to be built to transport the oil from Iran to the new refinery (they also noted the absence of any oil pipeline linking Meghri with Yerevan). In their estimation, this project was most likely a joint Iranian-Russian idea. Concerning the new 42KM natural gas pipeline linking Iran and Armenia, they believed that a September completion was possible, but not likely. Furthermore, they did not believe that it would be used for transit purposes (subject to upgrades on the 230KM pipeline to Yerevan) because once linked, the pipeline could deliver a maximum of 2.3 billion cubic meters per year, while estimated Armenian demand for 2007 exceeded 2 billion cubic meters. In their view, if Iran wanted to supply natural gas to Europe via Armenia, a new natural gas pipeline exclusively for this purpose would have to be built.

Trade

¶12. (C) Gagik Kocharyan, head of the trade department at the Ministry of Trade and Economic Development, characterized trade with Iran as stable, though much lower in volume than in the peak trading years of 1996-1997 when Iran was Armenia's most important trading partner. According to Kocharyan, Iran was now Armenia's sixth most important trading partner, with higher quality goods from Russia, Europe, and the U.S. having replaced many of the lower quality consumer goods Armenia previously imported from Iran.

Kocharyan said that energy was the most important component of Iranian-Armenian trade, with Armenia's energy swap with Iran accounting for 40 percent of Armenian exports to Iran. Beyond energy, Kocharyan said that Armenia's other primary exports to Iran included cement, copper, and machinery. With regard to Armenian imports from Iran, Kocharyan said that diesel fuel, tar, raw materials for the chemical industry,

BAKU 00000766 004.2 OF 007

and fertilizers were Armenia's principle imports. As there are no rail links connecting Iran with Armenia, Kocharyan said that Armenia's road border crossing with Iran at Meghri was the primary way by which Iranian goods entered Armenia (Kocharyan acknowledged that some Iranian imports entered Armenia overland from the Georgian ports of Batumi and Poti, but these were "insignificant"). Kocharyan's principle complaint about trade with Iran centered on limitations and restrictions placed on the importation of Armenian goods to Iran, the Iranian Ministry of Trade requiring that it pre-approve all imports before transit. He said that while Armenia and Iran had reached standardization agreements, they were not yet operational. In Kocharyan's view, if trade were to become more standardized using tools such as mutual certificates, trade between the two countries would be facilitated greatly.

¶13. (C) Albert Khachaturyan, head of the transportation

department at Sati International Transport, an Iranian Armenian-owned shipping company based in Bandar Abbas, echoed Kocharyan's complaints about trading with Iran. According to Khachaturyan, trade with Iran is difficult because of difficult Iranian customs practices and Iran's failing infrastructure (port facilities and roads). As Sati uses Iran principally as a transit country for goods originating in China, the Far East, and the UAE, Khachaturyan said that complex and changing Iranian customs rules affected his company. For example, Khachaturyan said that it takes at least one week to get permission to move a container from Bandar Abbas to Yerevan. Khachaturyan said that plastics, dry goods, and lower end consumer goods dominated Iranian imports to Armenia, and that Armenian exports to Iran were decreasing. Concerning transit goods from Iran to Georgia, Khachaturyan said that it was far cheaper to ship a container directly from Bandar Abbas to Poti than overland via Armenia, with the overland cost was four times higher than by sea. Khachaturyan said that his company also shipped goods destined for Azerbaijan from Bandar Abbas, and that in addition to his company, there were only two other "serious" shipping companies that did business between Armenia and Iran.

¶14. (C) Accompanying Embassy Yerevan's EXBS Advisor to the main border crossing with Iran at Meghri May 24-25, Iran Watcher discussed trade-related issues with customs officials, the mayor of Meghri, and U.S. Department of Energy (DOE) contractors. According to the U.S. DOE contractors, approximately 400-600 trucks entered Armenia from Iran at the Meghri crossing daily, primarily in the evening hours. (They attributed increased nighttime activity to cooler nighttime temperatures, helpful when undertaking a 1-2 hour border crossing.) Iran Watcher personally observed a considerable amount of transshipment at the border, Iranian goods being unloaded into Armenian trucks for onward travel. The majority of Iranian truck drivers we observed were ethnic Azeris. Yerevan's EXBS FSN attributed this to the fact that many Azeris had previously lived in the Republic of Armenia, but were forced to leave when the conflict with Azerbaijan worsened. Though he was not easily identifiable as a USG employee, few Iranian ethnic Azeri truck drivers were willing to speak with Iran Watcher in Azeri. (Note - It is unclear whether the truck drivers were not interested in speaking with Iran Watcher because they were uncomfortable speaking Azeri in Armenia, whether they simply wanted to get on with their journey, or for some other reason.) Able to view a number of sections of the new 42KM natural gas pipeline from the road, Iran Watcher saw that construction was still ongoing.

Armenian Views on Iranian Interests in the Caucasus

¶15. (C) Sargsyan of the Spectrum Center for Strategic Analysis was quite skeptical of Iranian intentions in the Caucasus, suggesting that Iran pursues separate policies with all three countries. Satisfied that Armenia's "Complementarity" foreign policy was not a threat, Sargsyan believes that Iran will most likely continue to pursue warm relations with Georgia, mainly due to its interest in developing a north-south corridor. That said, Sargsyan believes that Iran remains somewhat wary of Georgia, especially in light of its improved relations with Turkey and NATO integration efforts, something Sargsyan says Iran perceives as a potential military threat. Concerning Azerbaijan, Sargsyan says that while Iran publicly states

BAKU 00000766 005.2 OF 007

that it supports the territorial integrity of Azerbaijan, in private, Iran does not recognize Azerbaijan as a legitimate country. Using what he characterized as a "soft expansion" policy, Sargsyan said that Iran uses religion in the southern border regions of Azerbaijan to expand its influence, something he feels the Azerbaijani government fails to recognize.

¶16. (C) According to Garnik Isagulian, National Security Advisor to President Kocharian, there is great interest in Iran for dialogue with the U.S. despite ongoing tensions over its nuclear program. Born near Esfahan, Isagulian travels to Iran regularly, most often for official purposes. Providing an overview of his most recent ten-day visit (in which Isagulian reportedly met with Tehran mayor Qalibif, the head of the MFA's Institute for Strategic Studies, and the head of Iranian state television Zargami, among others), Isagulian said that concerns about a possible U.S. military attack served as a unifying factor for Iranians and allowed economic issues to be overlooked. He said that the majority of Iranians he talked with blamed Ahmadinejad for Iran's deteriorating economic situation and that he thought the government would collapse if there was not an external enemy to blame. Isagulian said that the regime sees the acquisition of nuclear weapons as its ultimate guarantor, believing that if it does not obtain them, it will be done. Isagulian suggested that if the U.S. were to address Iran's regional security concerns, the regime might possibly reconsider its nuclear programs. Isagulian said that he was optimistic that relations between the two countries would improve because the U.S. and Iran would eventually have to talk. Isagulian suggested that if the U.S. and Iran could overcome their differences, Iran could even become a major base of support (non-military) for the U.S. in the Middle East.

¶17. (C) Isagulian said that almost all of his contacts and acquaintances in Iran watched foreign satellite television programs and listened to U.S.-based Iranian musicians. He said that the head of Iranian state television told him that these programs were actively monitored and that state television prepares its own programming to counter these messages. Isagulian said that Zargami was the son-in-law of Supreme Leader Khamenei and described him as well read and educated. Isagulian noted that prior to the start of their meeting, Zargami was watching a U.S.-based Iranian satellite television program, something Isagulian believed Zargami had done for show. Still, Isagulian said that he believed that Zargami was personally open to foreign broadcasts into Iran. Isagulian also commented that while the majority of ethnic Azeris considered themselves to be Iranians, there was discontent in northwestern Iran.

¶18. (C) Vahram Nercissyants, economic advisor to President Kocharian, was born in Tehran and travels there regularly to visit his father and other relatives. According to his relatives, the economic situation in Iran has taken a turn for the worse, leading many Iranian Armenians to purchase property in Yerevan. Saying that the Iranian government goes out of its way to accommodate the Armenian community, Nercissyants believes that Iranian Armenians buying property in Yerevan are not cutting their ties with Iran permanently, simply seeking a safer place to put their capital. Nercissyants also said that fear of a possible U.S. military attack was not driving Iranian Armenian investment in the Armenian real estate market.

¶19. (C) Recounting his childhood in Iran and his father's lengthy employment by the USG, Nercissyants suggested that the U.S. counter current Iranian fears about possible fragmentation by reminding the Iranian people that it was the Truman administration that safeguarded Iran's territorial integrity in the face of Soviet and British designs. Speaking to possible motivations behind the recent U.K. hostage situation, Nercissyants said that the Iranian government "likes to show its power by creating a problem and then solving it." Nercissyants conceded, however, that Iran policy was not within his portfolio, and that despite his personal history and periodic family visits to Tehran, he did not particularly keep up with current political/economic issues between Armenia and Iran. (Note - Nercissyants spent

the great majority of his adult life in the U.S. and working for the World Bank, before coming to his ethnic homeland to advise the Armenian government on economic reform. He is a staunch supporter of classic, liberal-economic, "Washington Consensus" policies. End Note)

¶20. (C) According to David Hovannisyan, former Armenian ambassador to Syria and now professor of oriental studies at Yerevan State University, two groups within Iranian ruling circles are wrestling for control over the country's future: one group comprised of Ayatollah Yazdi and his followers, the other led by Rafsanjani and his followers. Hovannisyan believes the Rafsanjani camp had recently emerged dominant, and is now in a position to shape strategic and foreign policy direction. According to Hovannisyan, Supreme Leader Khamenei had shifted his support to the Rafsanjani camp because he had become increasingly concerned that President Ahmadinejad's foreign and domestic policies (increasing tensions with the West and his mismanagement of the economy) were threatening the stability of the regime. Commenting that Khamenei was now more influential than he was two years ago, Hovannisyan said that he believed that the Supreme Leader would play a more active role in foreign policy decisions.

The Iranian Exchange Student Population and Possible Outreach Opportunities

¶21. (C) According to MFA Iran Desk Officer Vahagn Afyan, approximately 3,000 Iranian students studied at Armenian universities. Saying that the majority of Iranian students were Armenians from Iran, Afyan said that Armenia was an attractive location for Iranian students because they could pursue courses of study that they might not be able to in Iran, the political and social climate in Armenia was much freer, and, in the case of Iranian Armenian students, many had relatives living in Armenia. According to Embassy Yerevan CONS Chief, Yerevan's medical university had an especially large Iranian exchange student population.

¶22. (C) We subsequently learned that Iran's Firdusi University in the city of Mashad completed a renewable, three-year cooperation and exchange agreement with the Brussov Institute, Armenia's most prestigious, private foreign language university. The agreement was signed during the May 24-25 visit to Iran of Brussov's rector, Suran Zolian. The agreement provides for exchanges of both students and professors, but does not specify the numbers. The Iranian students will reportedly come to Yerevan to study or work within the Russian language department of the Brussov Institute. Brussov offers Farsi instruction only as an academic minor (second foreign language) to students focusing on another foreign language. Embassy Yerevan confirmed this with the Brussov vice-rector, through the help of a Yerevan FSN who is a part-time member of the Brussov faculty.

¶23. (C/NF) Garnik Asatryan, head of oriental studies at the new Aria International (Private) University, also a Yerevan State University professor, and editor-in-chief of the scholarly journal "Iran and the Caucasus," provided an overview of Aria University's academic and exchange student programs. According to Asatryan, the majority of exchange students at Aria University come from Iran. Asatryan introduced Iran Watcher to a number of his master's and doctoral students, many with Iranian expertise (one an expert on Baluch issues, for example). Saying that Iranian exchange students and academics felt very comfortable pursuing their academic endeavors in Armenia due to excellent Iranian-Armenian relations, Asatryan expressed an interest in facilitating academic conferences involving both U.S. and Iranian academics. (Note - Hovannisyan at Yerevan State University was also very interested in the prospect of bringing together U.S. and Iranian academics) Both Asatryan and Hovannisyan said that they would consider upcoming opportunities to facilitate a meeting of U.S. and Iranian

academics and forward to Iran Watcher their proposals for consideration.

Comment

¶24. (C) Given Iran's strong desire to develop a regional energy and trade corridor, counter expanding U.S. influence

BAKU 00000766 007.2 OF 007

in the Caucasus, and growing sense of isolation due to increasing tensions with the West, it is unlikely that Iran will radically change its policy approach towards Armenia. While noting that there had been no pressure from the Iranian side, the MFA's Armen Melkonian said that President Ahmadinejad has indicated a strong interest in visiting Armenia again in the September/October timeframe.
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